

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2006

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

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**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**OFFICIALS
(Before April 2006)**

<u>NAME OF OFFICIAL</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
Clay Gavin	Trustee/Chairman	March 31, 2006
Alan Reiter	Trustee	March 31, 2010
Ron Benke	Trustee	March 31, 2008
Randy Lansing	Utility Manager	Indefinite

(After April 2006)

<u>NAME OF OFFICIAL</u>	<u>OFFICIAL TITLE</u>	<u>TERM EXPIRES</u>
Clay Gavin	Trustee/Chairman	March 31, 2012
Alan Reiter	Trustee	March 31, 2010
Ken McDermott	Trustee	March 31, 2008
Ron Benke	Utility Manager	Indefinite



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Cascade Municipal Utilities
Cascade, Iowa

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Cascade Municipal Utilities, Cascade, Iowa, as of and for the year ended June 30, 2006. These financial statements are the responsibility of Cascade Municipal Utilities' officials. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statements of Cascade Municipal Utilities are intended to present only the results of the transactions of that portion of the financial reporting entity of Cascade Municipal Utilities that is attributable to the transactions of the Utilities. Also, as permitted by the Code of Iowa, the accounting records of the Utility have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of Cascade Municipal Utilities as of and for the year ended June 30, 2006, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 18, 2006, on our consideration of Cascade Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of an audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 8 and 17 - 19 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the aforementioned financial statements taken as a whole. The supplemental information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Kiesling Associates LLP

West Des Moines, Iowa
August 18, 2006

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cascade Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the year ended June 30, 2006. We encourage readers to consider this information in conjunction with the Utilities' financial statements which follow.

2006 Financial Highlights

- Receipts of the Utilities' business type activities increased 21%, or approximately \$478,000, from fiscal 2005 to fiscal 2006.
- Disbursements of the Utilities' business type activities increased 15%, or approximately \$355,000, in fiscal 2006 from fiscal 2005.
- The Utilities' total cash basis net assets increased 77%, or approximately \$107,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial statements.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the nonmajor proprietary funds.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF ACCOUNTING

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utilities' finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents all of the Utilities' net assets. Over time, increases or decreases in the Utilities' fund equity may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the electricworks and natural gas system. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one kind of fund:

- (1) Proprietary funds account for the Utilities' Enterprise Funds. Enterprise Funds are used to report business type activities. The Utilities maintains two Enterprise Funds to provide separate information for the electric and gas funds, considered to be major funds of the Utilities.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utilities' cash balance for business type activities increased from a year ago, increasing from \$138,000 to \$245,000. The analysis that follows focuses on the changes in cash balances for business type activities.

Changes in Cash Basis Net Assets of Business Type Activities				
(Expressed in Thousands)				
	Year Ended June 30,			
	2006	2005		
Receipts and transfers:				
Charges for service:				
Electric	\$ 1,503	\$ 1,297	56 %	
Gas	1,099	845	41 %	
Capital grants, contributions and restricted interest	-	-	- %	
General receipts:				
Unrestricted interest on investments	10	3	- %	
Bond proceeds	-	-	- %	
Other general receipts	84	74	3 %	
Total receipts	<u>2,696</u>	<u>2,219</u>	<u>100 %</u>	
Disbursements and transfers:				
Electric	1,520	1,338	59 %	
Gas	1,069	897	41 %	
Transfers	-	-	- %	
Total disbursements and transfers	<u>2,589</u>	<u>2,235</u>	<u>100 %</u>	
Increase (decrease) in cash basis net assets	107	(16)		
Cash basis net assets, beginning of year	<u>142</u>	<u>158</u>		
Cash basis net assets, end of year	<u>\$ 249</u>	<u>\$ 142</u>		

Total business type activities receipts for the fiscal year were \$2.696 million compared to \$2.219 million last year. This significant increase was due primarily to the increase in utility rates during the year. The cash balance increased by approximately \$107,000 from the prior year because of increased collections from services due to increased utility rates. Total disbursements and transfers for the fiscal year increased by 15.87% to a total of \$2.589 million.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund cash balance increased by \$56,420 to \$205,014, due to primarily an increase in the sale of electric services over the prior year.

The Gas Fund cash balance increased by \$50,769 to \$44,587, due primarily to the increase in rates for gas services.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget to increase revenues to reflect increased utility rates during the year as well as expenditures that increased, mostly due to the sharp increase in natural gas prices during the year.

DEBT ADMINISTRATION

At June 30, 2006, the Utilities had \$640,000 in bonds and other long-term debt compared to approximately \$715,000 last year, as shown below.

Changes in Cash Basis Net Assets of Business Type Activities		
(Expressed in Thousands)		
	Year Ended June 30,	
	2006	2005
Revenue notes	\$ 640	\$ 715

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Cascade Municipal Utilities' elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various Utilities' activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$2.87 million, an increase of 5.3% over the final 2006 budget. The Utilities will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the Utilities. Budgeted disbursements are expected to rise by approximately \$125,000. Increased wage and cost-of-living adjustments, increases in natural gas prices and the Claddagh Court project represent the largest increases. The Utilities has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the Utilities' budgeted cash balance is expected to increase by approximately \$136,000 by the close of 2007.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have any questions or require additional information please contact Ron Benke, Utility Manager, 320 1st Avenue West, PO Box 400, Cascade, Iowa 52033.

BASIC FINANCIAL STATEMENTS

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

Exhibit A

**Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2006**

		Program Receipts	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Disbursements	Charges for Services	Business Type Activities	Total
Functions / Programs:				
Business type activities:				
Electric	\$ 1,520,647	\$ 1,502,788	\$ (17,859)	\$ (17,859)
Gas	1,069,516	1,098,680	29,164	29,164
Total	<u>2,590,163</u>	<u>2,601,468</u>	<u>11,305</u>	<u>11,305</u>
General Receipts:				
Unrestricted interest on investments			10,268	10,268
Miscellaneous			<u>85,539</u>	<u>85,539</u>
Total general receipts and transfers			<u>95,807</u>	<u>95,807</u>
Change in cash basis net assets			107,112	107,112
Cash basis net assets, beginning of year			<u>137,948</u>	<u>137,948</u>
Cash basis net assets, end of year			<u>\$ 245,060</u>	<u>\$ 245,060</u>
Cash Basis Net Assets				
Restricted:				
Debt service			\$ 110,275	\$ 110,275
Unrestricted			<u>134,785</u>	<u>134,785</u>
Total cash basis net assets			<u>\$ 245,060</u>	<u>\$ 245,060</u>

The accompanying notes are an integral part of these financial statements.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

Exhibit B

**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
As of and for the Year Ended June 30, 2006**

	Enterprise Funds		
	Electric	Gas	Total
Receipts:			
Charges for services	\$ 1,502,818	\$ 1,098,727	\$ 2,601,545
Miscellaneous	63,982	21,557	85,539
Total receipts	<u>1,566,800</u>	<u>1,120,284</u>	<u>2,687,084</u>
Disbursements:			
Business type activities	<u>1,412,227</u>	<u>1,069,516</u>	<u>2,481,743</u>
Total disbursements	<u>1,412,227</u>	<u>1,069,516</u>	<u>2,481,743</u>
Excess of receipts over disbursements	<u>154,573</u>	<u>50,768</u>	<u>205,341</u>
Nonoperating receipts (disbursements):			
Interest on investments	10,267	1	10,268
Debt service	<u>(108,420)</u>	<u>-</u>	<u>(108,420)</u>
Total nonoperating receipts (disbursements)	<u>(98,153)</u>	<u>1</u>	<u>(98,152)</u>
Net change in cash balances	<u>56,420</u>	<u>50,769</u>	<u>107,189</u>
Cash balances, beginning of year	<u>148,594</u>	<u>(6,182)</u>	<u>142,412</u>
Cash balances, end of year	<u>\$ 205,014</u>	<u>\$ 44,587</u>	<u>\$ 249,601</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ 110,275	\$ -	\$ 110,275
Unreserved	<u>94,739</u>	<u>44,587</u>	<u>139,326</u>
Total cash basis fund balances	<u>\$ 205,014</u>	<u>\$ 44,587</u>	<u>\$ 249,601</u>

The accompanying notes are an integral part of these financial statements.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cascade Municipal Utilities is a component unit of the City of Cascade, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The utilities is governed by a three-member board of trustees appointed by the City Council, which exercises oversight responsibility under this criteria.

Reporting Entity

For financial reporting purposes, Cascade Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement.

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary net assets. Net assets are reported in two categories.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consists of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Major individual enterprise funds are reported as separate columns in the fund financial statements.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Utilities reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utilities' electric system.

The Gas Fund accounts for the operation and maintenance of the Utilities' natural gas distribution system.

Measurement Focus and Basis of Accounting

Cascade Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, no disbursements exceeded the amounts budgeted in the business type activities functions.

NOTE 2. CASH AND POOLED INVESTMENTS

The Utilities' deposits in banks at June 30, 2006, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005**

NOTE 2. CASH AND POOLED INVESTMENTS (Continued)

At June 30, 2006, the Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3.

NOTE 3. NOTES PAYABLE

Annual debt service requirements to maturity for revenues notes are as follows:

Year Ending June 30,	Interest Rate	Electric Revenue Notes	
		Principal	Interest
2007	4.50 %	\$ 80,000	\$ 30,275
2008	4.50 %	85,000	26,675
2009	4.60 %	85,000	22,850
2010	4.70 %	90,000	18,940
2011	4.80 %	95,000	14,710
2012	4.90 %	100,000	10,150
2013	5.00 %	105,000	5,250
		<u>\$ 640,000</u>	<u>\$ 128,850</u>

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the electric utility and the note holders hold a lien on the future earnings of the utility.
- (b) Sufficient monthly transfers shall be made to an electric revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) Additionally, \$98,000 has been set aside from the note proceeds to create a principal and interest reserve account. These funds are set aside for the purpose of making principal and interest payments when funds are not sufficient in the sinking account.

The Utilities has established the sinking and reserve accounts required by the note resolution and has complied with the related provisions.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005**

NOTE 4. PENSION AND RETIREMENT BENEFITS

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the Utilities contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the year ended June 30, 2006, were \$12,514, equal to the required contributions for each year.

NOTE 5. COMPENSATED ABSENCES

The Utilities' employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>9,500</u>

This liability has been computed based in rates of pay in effect at June 30, 2006.

NOTE 6. RISK MANAGEMENT

Cascade Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7. CONCENTRATION OF CREDIT RISK

The Utilities grants credit to its customers, all of whom are located in the municipal service area.

REQUIRED SUPPLEMENTARY INFORMATION

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)**

Required Supplementary Information

Year Ended June 30, 2006

	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total
Receipts:			
Use of money and property	\$ 10,268	\$ -	\$ 10,268
Charges for service	2,601,545	-	2,601,545
Miscellaneous	85,539	-	85,539
Total receipts	<u>2,697,352</u>	<u>-</u>	<u>2,697,352</u>
Disbursements:			
Debt service	108,420	-	108,420
Capital projects	63,927	-	63,927
Business type activities	2,417,816	-	2,417,816
Total disbursements	<u>2,590,163</u>	<u>-</u>	<u>2,590,163</u>
Excess of receipts over disbursements	107,189	-	107,189
Other financing sources, net	<u>-</u>	<u>-</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	107,189	-	107,189
Balances, beginning of year	<u>142,412</u>	<u>-</u>	<u>142,412</u>
Balances, end of year	<u>\$ 249,601</u>	<u>\$ -</u>	<u>\$ 249,601</u>

See Accompanying Independent Auditors' Report

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis)**

Required Supplementary Information

Year Ended June 30, 2006

<u>Budgeted Amounts</u>		Variance Favorable (Unfavorable)
<u>Original</u>	<u>Final</u>	
\$ 10,000	\$ 10,000	\$ 268
2,306,603	2,631,603	(30,058)
80,000	80,000	5,539
<u>2,396,603</u>	<u>2,721,603</u>	<u>(24,251)</u>
-	-	(108,420)
-	-	(63,927)
<u>2,396,603</u>	<u>2,606,603</u>	<u>188,787</u>
<u>2,396,603</u>	<u>2,606,603</u>	<u>16,440</u>
-	115,000	(7,811)
<u>-</u>	<u>-</u>	<u>-</u>
-	115,000	(7,811)
<u>-</u>	<u>138,000</u>	<u>4,412</u>
<u>\$ -</u>	<u>\$ 253,000</u>	<u>\$ (3,399)</u>

See Accompanying Independent Auditors' Report

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
Year Ended June 30, 2006**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Utilities annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon 10 major classes of disbursements known as functions, not by fund or fund type. These 10 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were budget amendments that increased revenues by \$325,000 and increased disbursements by \$210,000.

See Accompanying Independent Auditors' Report

OTHER SUPPLEMENTARY INFORMATION

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

Schedule 1

**STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2006**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes: Electric	Dec 1, 2001	3.50-5.00%	\$ 980,000

See Accompanying Independent Auditors' Report

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

Schedule 1

**STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2006**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ <u>715,000</u>	\$ <u>-</u>	\$ <u>(75,000)</u>	\$ <u>640,000</u>	\$ <u>33,420</u>

See Accompanying Independent Auditors' Report

CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA

Schedule 2

BOND AND NOTE MATURITIES

June 30, 2006

Year Ending	Electric Revenue Notes	
	Issued Dec 1, 2001	
	Interest	
<u>June 30,</u>	<u>Rates</u>	<u>Amount</u>
2007	4.50 %	\$ 80,000
2008	4.50	85,000
2009	4.60	85,000
2010	4.70	90,000
2011	4.80	95,000
2012	4.90	100,000
2013	5.00	105,000
		<u>\$ 640,000</u>

See Accompanying Independent Auditors' Report



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the
Cascade Municipal Utilities:

We have audited the financial statements of Cascade Municipal Utilities as of and for the year ended June 30, 2006, and have issued our report thereon dated August 18, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cascade Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Utilities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cascade Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Cascade Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cascade Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Kiesling Associates LLP

West Des Moines, Iowa
August 18, 2006

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Schedule of Findings
June 30, 2006**

Part I: Summary of Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Schedule of Findings
June 30, 2006**

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. This situation is not unusual for utilities your size.

Recommendation - In this situation, compensating controls may be available through strong trustee control over financial transactions and continuous monitoring of the Utilities' operations. We realize that with a limited number of office employees, segregation of duties is difficult. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Schedule of Findings
June 30, 2006**

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, were within the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- III-B-06 Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 29, 1979, were noted.
- III-C-06 Travel Expense - No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials or employees were noted.
- III-D-06 Business Transactions - There were no business transactions, which came to our attention during the course of our audit between the Utilities and the Utilities' officials or employees.
- III-E-06 Bond Coverage - Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-06 Council Minutes - No transactions were found that we believe should have been approved in the minutes but were not. The minutes records were examined and appeared to give a condensed, accurate account of business transacted by the Trustees.

Although minutes of Trustee proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The Utilities should comply with the Code of Iowa and should publish minutes within in the specified time as required.

Response - We will publish minutes in the time required.

Conclusion - Response acknowledged.

- III-G-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- III-H-06 Revenue and Electric Notes - The Utilities has set aside funds as required by the electric and electric revenue bond resolutions.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

**Schedule of Findings
June 30, 2006**

III-I-06 Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

**CASCADE MUNICIPAL UTILITIES
CASCADE, IOWA**

STAFF

This audit was performed by:

Steven P. Harms, CPA, Partner
Jessica R. Richter, CPA, Supervising Senior Accountant
Amanda Hilbert, Accountant